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FINAL PLAN FOR STUDY OF PRICE STRUCTURES FOR SELECTED OUTDOOR RECREATION OPPORTUNITIES PROVIDED BY PRIVATE OPERATORS

Final Plan for Study of Price Structures for Selected Outdoor Recreation Opportunities Provided by Private Operators

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Long Title

Price Structures for Selected Outdoor Recreation Opportunities Provided by Private Operators

Short Title

Transactions Price Study

Purposes

The study is part of a larger effort directed at estimating reliable, accurate, and theoretically sound economic values for outdoor recreation opportunities provided by federal agencies. These values are needed for use in agency program and land management planning. The specific objectives are to:

1. Provide general information on private-sector fees being charged for outdoor recreation opportunities similar to those provided by federal agencies. Comparability of services and facilities will be a key consideration.
2. Where possible, determine differences in transactions price between regions, for different types of opportunities, for the same opportunity for which different services/facilities are provided, and for firms located near and away from large blocks of federal land.
3. Obtain transactions price data that can be used to help evaluate the regional equilibrium prices that will be estimated as a result of supply and demand studies being made for selected federally (especially USDA Forest Service) provided outdoor recreation opportunities by Ken Cordell (SES) and George Peterson (RMS).
4. Determine cost-effective methods of obtaining transactions price data, such as from field-level managers in federal agencies.

Given these objectives and the relative lack of precedence of this type of research, the study should be viewed as exploratory.

Even though the study will emphasize the four objectives listed above, possible applications of the research results beyond those implied by those objectives include:

1. Provide private-sector pricing benchmarks to compare with recreation values estimated by the contingent-valuation and travel-cost methods -- for use in agency program and project planning where tests of economic efficiency are used.
2. Provide information to help determine fees to be charged for outdoor recreation opportunities provided by public agencies.
3. Provide information on attributes of outdoor recreation opportunities provided by private operators to help distinguish which opportunities might best be provided by the public and by the private sectors.
4. Provide information that helps define more clearly the extent to which private-sector outdoor recreation fees do in fact reflect market prices, or alternatively do not reflect market prices because the recreation is supplied in part for public relations purposes or is a supplemental income-generating venture where appropriate fixed and operating costs are not allocated fully to the recreation part of the venture.
5. Provide information that might be useful to private operations and to state and local agencies.
6. Help clarify the need to distinguish the nature and purposes of using different systems of accounts in natural resource policy analyses.
7. Help guide future research on the topic.

Theoretical Posture

This study is based on the premise that most types of recreation opportunities available on public lands are also offered by private entities. Assuming that transactions prices for those privately-provided outdoor

recreation opportunities are determined by competitive market forces (e.g., in markets that are functioning effectively and efficiently), then for the purposes of public land management planning, these prices would be equivalent to market prices for timber, mineral, and forage products (goods). This relationship is based on the posture that businesses buying timber, mineral, and forage outputs from federal agencies must consider both short-run and long-run costs. If transactions prices obtained from private operators providing outdoor recreation opportunities are to have validity, those operators should also be covering both those costs. Strictly defined from a normative economic posture, the firms should, over time, be in long-run equilibrium.

Implicit to the long-run equilibrium concept is the economic efficiency goal associated with the competitive economic model. That model is driven by free market prices which function to allocate resources to those economic activities considered most important by society. Assuming that demand is relatively stable and there is a reliable supply of factor inputs, the competitive model defines a "market price" where both producers and consumers (society) are in agreement, in the aggregate, with respect to price. The market is said to be in equilibrium at this price, as the quantity producers are willing to supply is equal to the quantity consumers are willing to purchase. Furthermore, it is a price that covers all costs of producing and marketing the product, including opportunity costs.

The long-run equilibrium price occurs where consumers and producers agree that the price of the product is equal to the value of the product. It is a measure of the relative claim a good or service has on productive resources vis-a-vis the claims of all other products. These prices are applied in the competitive economic model to achieve economic efficiency and are the appropriate values to be used when resource allocation decisions are made solely on economic criteria.

Within the context of the competitive economic model, use of other than long-run equilibrium prices for federal land management planning and programming purposes could understate or overstate the values society ascribes to various public land outputs and could lead to overproduction of some products and underproduction of others. For this reason, long-run equilibrium prices normatively are the target of this study effort.

From a purely normative perspective we would propose that transactions price information will be collected only from suppliers operating in markets that meet the long-run equilibrium conditions. That, of course, is impractical for two reasons. First, market prices also reflect short-run market conditions, so current prices may or may not be close to long-run equilibrium prices. In the short-run, firms sometimes need to produce and sell output for prices less than the equilibrium price. Under other short-run market conditions, firms might be able to produce and sell products indefinitely at prices above equilibrium. Second, it would be difficult to evaluate whether the operators studied are in fact charging a long-run equilibrium price without having detailed cost data for the observed firms and all other industry firms in the relevant market. The relevant market could be local, regional or national. Thus, we see the concept of long-run equilibrium as a tight conceptual scaffold on which to build our analyses, but our real focus is not long-run equilibrium. Instead it is competitive long-run prices and evidence that attention is being given to both fixed and variable costs by the operators in their price setting. Toward that end, consultants to the project will study a limited number of privately supplied recreation opportunities to determine relationships between prices currently being charged, cost accounting systems being used, and other considerations that should be included in the determination of recreation resource and activity values. Exhibit 1 describes some possible problems that might be associated with efforts to determine this correspondence.

In addition to the normative concept of inclusion of appropriate fixed costs in price setting, a second normative posture is that the private-sector opportunities studied should be as comparable as possible to those provided by federal agencies. For example, private campground fees that cover services (or higher quality services) over and above those typically provided at federal agency campgrounds would have to be adjusted to remove the cost of the additional services. Also, most private campground fees would have to be adjusted to account for the greater density of campsites common to private campgrounds when compared to public campgrounds.

Adjustment of private-sector prices is also necessary when it is apparent that the firm is not covering the full cost of producing the opportunity. There are recreation activities for which private operators capitalize on a locational monopoly. The fees charged by commercial waterfowl hunting operations and big game guides and outfitters likely cover the costs of providing the hunter access to the wildlife and whatever accommodations are provided. It is unlikely that fees charged in conjunction with these activities are set to cover production costs of the wildlife utilized.

The goal of comparability might also be difficult to reach for recreation activities where formal markets for recreation services are not prevalent. Under small fragmented market conditions, private operators often provide recreation services: (1) as a good-will gesture with no fees or fees set only to cover a part of the cost of providing the recreation opportunity, or (2) as a by-product or complementary output of some other economic activity and the operator wants only to recover the costs of managing the resource being utilized. The studies conducted by consultants in this research effort are expected to provide insights into these issues.

Scope

The study will be national in scope and include only recreation opportunities provided on private lands for which transaction information is available. Transactions price data will be obtained for as many of the proposed recreation opportunities in the nine administrative regions of the USDA Forest Service as is feasible. That feasibility cannot be specified a priori because of the novelty of the research; insufficient information exists by region on numbers of firms providing different types of opportunities. Realistically, all the recreation opportunities are not available in all nine regions, but all regions will be represented by at least some of the opportunities. The opportunities proposed for study were selected by the systematic process described below.

The base list of recreation opportunities used in scoping the study was provided by Gary Elsner and discussed with the research team and Ken Cordell at a meeting in Fort Collins, Colorado in April 1986. That list defined the 61 recreation activities currently tracked by the USDA Forest Service RIM system. To facilitate the 1989 RPA planning efforts, the 61 activities have been combined into the nine activity aggregates recommended by Gary Elsner and Bob Randall. Five criteria were used at the Fort Collins meeting to develop and prioritize indicator activities within each aggregate. They were:

1. The recreation opportunities should be ones provided by federal agencies with special attention given to opportunities provided extensively by those agencies.
2. The opportunities should be provided by more than just a few private operators.
3. The opportunities provided by the private operators should be comparable to those provided by federal agencies.

4. The opportunities should include those focused on in the Public Area Recreation Visitor Survey (PARVS) designed for the demand and supply studies being conducted by Peterson and Cordell.
5. The opportunities selected should represent all the nine RPA aggregates.

Application of these criteria resulted in the selection of two categories of activities. Priority 1 and 2 activities are listed in Table 1 with the appropriate RPA aggregate, referenced by numbers 1-9, in parentheses.

A second set of comparisons among opportunities was made by the research team to produce the final opportunity set (Table 2). In addition to the five criteria identified above, other factors were considered to facilitate interaggregate comparisons between the indicator activities. One important additional criterion was the requirement that the opportunity or activity be provided by the private sector on private land. This factor focuses the sampling effort on private landowners, which simplifies the sampling frame, enhances comparability to federal opportunities, and reduces many of the transactions prices to primarily access prices.

To the extent possible, the final set of activities listed in Table 2 is consistent with the PARVS activity set designed for the supply (Cordell) and demand (Peterson) analyses. The PARVS list has been reviewed and, where appropriate, the activity descriptions presented here have been adjusted to enhance comparability. Table 2 also lists the RPA aggregate number in parentheses following the aggregate opportunity description.

Table 1. Preliminary opportunity list.

Priority #1 Activities

Camping, Picnicking and Swimming (1)

- Developed camping, auto
- Developed camping, trailer
- Developed camping, tent
- Dispersed (primitive) camping

Mechanized Travel and Viewing Scenery (2)

- Driving vehicles or motorcycles off-road

Hiking, Horseback Riding, and Water Travel (3)

- Horseback riding
- Watercraft, nonmotorized

Winter Sports (4)

- Skiing, downhill
- Skiing, cross-country

Resort, Cabin and Organizational Camping Activities (5)

- Recreation cabin use

Hunting (6)

- Hunting, big game
- Hunting, small game

Fishing (7)

- Fishing, cold water

Other Recreation Activities (9)

- Gathering forest products

Priority #2 Activities

Camping, Picnicking and Swimming (1)

- Swimming and water play

Mechanized Travel and Viewing Scenery (2)

- Boat, powered

Hiking, Horseback Riding, and Water Travel (3)

- Hiking and walking

Resort, Cabin and Organization Camping Activities (5)

- Organization camping

Hunting (6)

- Hunting, upland bird
- Hunting, waterfowl

Fishing (7)

- Fishing, warm water

Other Recreation Activities (9)

- Viewing interpretive exhibits
- Touring

Table 2. Final opportunity set.

Camping, Picnicking, and Swimming (1)

- Developed camping, auto
- Developed camping, trailer
- Developed camping, tent
- Dispersed (primitive) camping*
- Swimming and water play

Mechanized Travel and Viewing Scenery (2)

- Boat, powered
- Driving vehicles or motorcycles off-road

Hiking, Horseback Riding, and Water Travel (3)

- Horseback riding
- Watercraft, nonmotorized

Winter Sports (4)

- Cross-country skiing

Resort, Cabin and Organization Camping Activities (5)

- Recreation cabin use*

Hunting (6)

- Hunting, big game
- Hunting, small game
- Hunting, upland bird
- Hunting, waterfowl

Fishing (7)

- Fishing, cold water
- Fishing, warm water

Other Recreation Activities (9)

- Gathering forest products (firewood, berries, Christmas trees, rocks)*

Although any listed recreation opportunity might be dropped from the sample if an insufficient number of private operators is located, it is our judgement the opportunities with an asterisk in Table 2 exhibit a lower probability of success in the identification of an adequate sample of private operators. For example, recreation cabin use has an asterisk in the list of the final opportunity set. Our problem with that activity stems from the USFS lease structure, which is for the land, not the land and cabin. The research team realized that most lease arrangements in the private sector include both the land and cabin. We do not expect to find a large sample of leases relevant to the opportunity provided by the USFS -- leasing of just the land for the cabin. The decision to drop or retain this activity in the study will be made after the development of the sample frame, at which time we will decide if an adequate sample of private leases of land for cabins can be obtained.

In preparation of the final list, five activities were dropped from the priority 1 and 2 lists. Organization camping, viewing interpretive exhibits, and touring were eliminated from the study because of the perceived difficulty of collecting price data comparable to federal opportunities and the expected small sample of private operators available. The hiking and walking category was dropped because few private operators offer that opportunity exclusive of other opportunities. The scarcity of private landowners providing recreation opportunities was also a problem for downhill skiing, complicated by an interwoven price structure with private ski area operators leasing federal lands. Downhill ski prices are readily available from National Forests where the leases are currently in effect. The final opportunity list outlined above might have to be modified as information is gained about the number of operators that provide the designated opportunities.

The research team has agonized over the development of criteria used to screen activities for consideration in the research effort. The comparability of privately provided recreation opportunities to federal agency opportunities became a major factor in the process. The focus on comparability led to the development of better specified criteria, including the requirement that the opportunity be provided by the private sector on private land. The major reason for adopting this criterion was that private operators offering recreation opportunities on private land are more likely to set prices at levels that cover the full costs (variable and appropriate fixed) than private operators using public lands. An exception of course is private operators providing big game hunting opportunities on private lands contiguous to federal lands where at least part of the cost of producing the game is borne by the federal government. Private firms leasing or using public land to provide recreation opportunities consider or face a different set of costs than private landowners producing the same opportunities. They also are constrained contractionally or by resource management rules and regulations concerning the land use options available to them.

Budget limitations were also a consideration in the decision to limit the sampling to private operators on private land. Unlimited sampling of all private operators providing outdoor recreation opportunities would have dissipated the research budget.

Methods

The proposed procedures consist of the following steps:

1. Obtain agreement on the study plan by all participants.
2. Implement studies by consultants.

3. Compile a sample frame of names and addresses of private operators providing the recreation opportunities listed in Table 2.
4. Administer a mail questionnaire to solicit information on transactions prices and other pertinent variables.
5. Analyze data and submit reports.

Approval of Study Plan

To avoid misunderstanding between the research team and Washington Office representatives of the participating agencies, signatures will be solicited on a study plan approval sheet. After all participants have had a chance to review the study plan, that agreed to study plan will be followed unless modified in writing.

Studies by Consultants

A series of studies will be done by consultants to help appraise the degree to which the transactions prices represent business-like procedures and reflect competitive markets and the appropriateness of using the price data obtained from the study in program and land management planning of federal agencies. These consultants will focus on a particular type of opportunity and write separate working papers that will be a part of the final study report. They include Drs. Brian Greber (Oregon State University), Rebecca Johnson (Oregon State University), Robert Mendelsohn (Yale University), Steve Reiling (University of Maine), and John Stoll (Texas A&M University). Each is contributing to the study more than the efforts covered by the funding provided.

Compilation of Sample Frame

Before the mail questionnaires can be submitted to the private providers, information on their names and addresses and types of operations must be obtained to comprise a "sample frame." With exception of overnight camping, the number of private entities providing one or more of the recreation opportunities listed above are limited and generally do not have cohesiveness that characterize other industrial groupings. The firms providing these recreation services are small and frequently are dependent on other product lines as their major source of sales and income. For the most part, the noncampground firms do not produce a product line recognized and monitored by economic census reports. As a consequence, little information exists with respect to the number, size, and location of the targeted enterprises.

Before a sample frame can be developed for the collection of transaction prices, a substantial survey effort is anticipated just to identify relevant firms. Forest Service Recreation and Wildlife Staff Officers in the Forest Supervisors' Offices will be asked to provide the name and address of entities offering any of the opportunities previously identified. Field-level recreation and wildlife managers of the Bureau of Land Management, National Park Service, and Corps of Engineers will also assist in development of the sample frame. A small sample of about 5 field managers from each of these agencies will be selected to pilot test the procedures used to solicit the names and addresses. Their input will be evaluated to determine if they can provide the names and addresses and can usefully identify the recreation opportunities provided by the operators they name. Also, the burden on the field staff of providing this information will be assessed during this pilot testing.

Inasmuch as a majority of the opportunities are open space activities, large property holders (farmers, ranchers, commercial forest owners, etc.) are

likely to be the major providers of the recreation opportunities that have been identified. Extension personnel with the land grant universities, state and federal wildlife agencies will be asked to provide the names and addresses of individuals or businesses that are required to have a license or a permit to offer a recreation service of interest to study.

Private organizations and other pertinent individuals will also be asked to help develop the sample frame. For example, Derrick Crandall, Executive Director of the American Recreation Coalition (ARC) and a cooperator in the study, will provide what assistance the ARC can offer in identifying private recreation operators. A search of library references listing the names and addresses of private recreation-related organizations and associations. Finally, the consultants assisting with the study will be asked to help develop the sample frame as well as screen the lists generated from other sources.

Operators of private campgrounds will be sampled differently than operators from the other recreation opportunities, because transactions prices for camping operators are available from the Rand McNally Camping Directory and other directories. A subsample or operators from these directories will be made to obtain information not provided by the directories.

Preparation and Administration of Mail Questionnaires

A mail questionnaire is planned as the major instrument for collection of the transactions price data. Work on design of the questionnaire has been started in cooperation with the American Recreation Coalition but will not be finalized until after the study plan is approved and after development of the sample frame is well under way -- to profit from information gained during that process. The questionnaire will be approved and reviewed by all study

participants before it is finalized. A pilot test to a small sample of operators will be administered before general distribution of the questionnaire. It will solicit information from private operators pertaining to:

1. Description of opportunities provided.
   a. Broad categories of opportunities, such as hunting.
   b. Specific classification such as upland game hunting.
   c. Characteristics of the natural setting.
   d. Description of facilities and services offered.
   e. Other
2. Information on fee schedule.
   a. Overall fee.
   b. Temporal basis of fees (by hour, day, week, season, year, more than a year).
   c. Differential pricing by specific areas.
   d. Differential pricing by season (high versus low use season).
   e. Identification of subcomponents of overall fee structure (access, fees, fees for specific types and/or levels (quality) of services/facilities, etc.).
3. How fees are set.
   a. Based on costs (and on what costs).
   b. Based on costs plus demand.
   c. Based on what other private operators are charging.
   d. Based on what public agencies are charging.
   e. Price gouging (getting what the "market" will bear).
4. Description of the business operation.
   a. Self-supporting operation or interlinked with another business to cover costs.

b. Family owned and operated.

c. Years in business.

d. Target user group (local, tourist, etc.).

e. Degree of similar public and private substitutes nearby.

In an effort to facilitate comparability to the extent possible, the attributes of the opportunity will be defined in a way so that similarities in what is provided by the private operators can be compared to what is provided by a specific federal agency. For example, it is known that private campground operators provide about five types of camping opportunities that vary by level and quality of development, facilities, and services provided which subsequently influence the prices charged. Similarly, the USFS and other federal agencies also provide camping opportunities reflecting different levels of service and development. Information on the attributes of the private opportunities provided will be obtained from the mail questionnaire.

The mail questionnaire might also be used to ascertain the proximity of the private operator to federal land providing similar opportunities. This information combined with an appraisal of comparability from federal agency staff officers providing private operator names and addresses will help determine whether proximity to federally owned land influences the prices charged by the private sector. If feasible, the results will be displayed by proximity to federal land administered by a specific federal agency.

The ARC will develop the questionnaire, solicit input for its design, and then administer the questionnaire to an adequate sample of operators providing the opportunities listed on page 8. OMB clearance is not necessary under these conditions.

Data Analyses and Reports

The data received from the ARC will be analyzed as a secondary source by Colorado State University. Statistical analyses employed will be appropriate for the purposes of the study and for the amount and quality of data obtained. If too few firms in some regions limit ability to determine regional transactions prices, the Washington Office study cooperators will be apprised of these deficiencies before the draft report is submitted.

To the extent possible, the final report will organize and display data in ways that (1) are directly useful to federal agency program (especially RPA process) and land management planning and (2) will facilitate comparisons with measures of economic demand and supply being made by Peterson and Cordell.

The draft report will be distributed to all study participants for their review prior to submission of the final report, which will include reports from all consultants. Current plans are to submit a revised copy of the final report and the consultants' papers for publication by the Rocky Mountain Station.

Study Coordination

The proposed time table is as follows:

	Task	Target Date
1.	Obtain approval of Study Plan	July 1, 1986
2.	Implement Contracts with Consultants	July 15, 1986
3.	Finish Compilation of Sample Frame	August 15, 1986
4.	Submit Mail Questionnaire for Review	September 1, 1986
5.	Complete Review of Mail Questionnaire	October 1, 1986
6.	Administer Mail Questionnaire	November 1, 1986
7.	Working Papers due from Consultants	April 1, 1987
8.	Submit Draft Final Report for Review	May 1, 1987
9.	Complete Review of Draft Final Report	June 1, 1987
10.	Submit Final Report	June 30, 1987

Research Team

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Consultants

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Rebecca Johnson, Oregon State University

Robert Mendelsohn, Yale University

Steve Reiling, University of Maine

John Stoll, Texas A&M University

Project Costs

The total cost of the project is estimated to be about $100,000, of which $57,600 is provided by the Washington Office Resources Program and Assessment Staff ($53,500) and Wildlife Management Staff ($4,100). The other costs will be borne mostly by the Rocky Mountain Forest and Range Experiment Station. Those costs will comprise salary contributions by Bev Driver and George Peterson, general administrative costs, and about $8,000 of FY 87 operating funds of RM-4851. The nominal costs to the National Park Service, Corps of Engineers, and Bureau of Land Management of helping compile the sample frame will be contributed by those agencies.

Safety and Environmental Considerations

The study is not expected to generate any unusual safety, health, or environmental problems. Safety and health considerations are limited to domestic airline travel and rental or federal automobile use by the research team. No environmental impacts will occur during the study.

EXHIBIT 1

Some Possible Problems in Determining Competitive Long Run Prices

Since the early 1960's, several studies of private campgrounds and tourist cottages have documented that the operators do not follow very strict business-like procedures. Opportunity costs are frequently ignored, long hours are often put in by family members at salary rates lower than the minimum wage economies of scale are often not captured, and prices are frequently unrelated to supply costs. Information from private timber companies too shows that outdoor recreation opportunities are frequently provided at below-cost prices to generate good will and concentrate uses at particular locations such as away from roads with logging trucks.

In the case of private campgrounds operating for a profit, it is possible that transaction prices as well as attempts to estimate competitive long-run prices from cost data will understate any true equilibrium price for campground resources. To the extent public campgrounds offer services (e.g., lower density campsites, etc.) that are lacking in private campgrounds, the value of those benefits would have an influence (via demand) on long-run competitive prices and that influence might not be captured by transaction prices or a cost function approach to determining long-run equilibrium prices.

Hunting and fishing resource values are another troublesome area for the long-run competitive price premise. Most commercial hunting and fishing enterprises operate from a locational advantage that has allowed the operator to capitalize on natural game populations or migratory movements of game and/or fish. Since the operator may have little or no influence over the supply of game and fish, transactions prices are likely to be sensitive to supply and demand forces outside the operators influence. With natural supply functions

being more important than the decisions and actions of mankind, long-run competitive prices will be difficult to estimate.

It would appear also that a policy decision might be needed regarding hunting and fishing costs before an appropriate definition of transaction prices can be determined. If private providers of hunting and fishing opportunities are utilizing natural populations, relevant cost functions from their point of view will be the expenses they incur in providing access for their clients to the game. The cost of producing the game would not be an operator expense and would not be reflected in the long-run competitive price. If wildlife are considered true gifts of nature, game and fish production costs would be zero and the indicated omission would be of no consequence. In this case the relevant recreation value for hunting and fishing would be a simple access charge to cover costs associated with management of hunting and fishing activities on public lands.

There are few areas in the western states where production of game and fish species on public lands and waters does not come at some expense to the public. If not in direct costs, then certainly in the form of costs for opportunities forgone that could be realized from other uses of the public lands. This category of costs is generally not borne by private hunting and fishing operators unless private hunting and fishing preserves and game farms are included.

In short, transaction prices for private hunting and fishing services could be a poor, if not inappropriate, representation of the value of the hunting and fishing resources administered by the federal land management agencies. The prices charged by private hunting and fishing operators that depend on and utilize natural populations are likely to cover services (guide and outfitter

services) that the land management agencies do not provide. The access or trespass fee (no other services provided) charged by some property owners would be representative of the administrative costs incurred to manage an area for hunting and fishing. Access fees do not account for the cost of producing game and fish and, therefore, would not be representative of long-run competitive prices.

These examples are offered to reinforce the need to appraise clearly what the transactions prices do and do not mean with regard to their use -- and the assumption that such prices are equivalent to prices paid for timber, mineral, and forage.